

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Coleman Area Library	County Midland
Audit Date 12/31/04	Opinion Date 6/8/05	Date Accountant Report Submitted to State: 7-7-05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Weinlander Fitzhugh			
Street Address 601 Beech Street		City Clare	State MI
Accountant Signature <i>Shannon L. Wilson</i> CPA		ZIP 48617	
		Date 7-7-05	

COLEMAN AREA LIBRARY
COLEMAN, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2004

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COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Our discussion and analysis of the Coleman Area Library's (Library) financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2004.

Financial Highlights

The Library's net assets decreased by \$11,055 or 2%. Program revenues were \$8,151 or 7% of total revenues, and general revenues were \$108,761 or 93%.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Coleman Area Library financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the Government-wide financial. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Governmental-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Reporting the Library as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Library's finances is, "Is the Library better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Library as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Library's net assets as a way to measure the Library's financial position. The change in net assets provides the reader a tool to assist in determining whether the Library's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as assessment base, and facility conditions in arriving at their conclusion regarding the overall health of Library.

Reporting the Library's Most Significant Funds

Fund Financial Statements

The Library's fund financial statements provide detail information about the most significant funds – not the Library as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The general fund used by the Library is a governmental fund.

Governmental Funds

The Library's activities are reported in the governmental fund, which focus on how money flows into and out of the general fund and the balances left at year-end available for spending in future periods. This fund is reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Library's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Library's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Library-wide Financial Analysis

The Statement of Net Assets provides the perspective of the Library as a whole. Exhibit A provides a summary of the Library's net assets as of December 31, 2004:

Exhibit A	Governmental Activities
Assets	
Cash and cash equivalents	\$ 75,527
Prepaid expenses	5,843
Capital assets - net of accumulated depreciation	<u>641,720</u>
Total assets	<u>723,090</u>
Liabilities	
Current liabilities	<u>1,720</u>
Net Assets	
Invested in property and equipment - net of related debt	641,720
Restricted for new building	17,890
Unrestricted	<u>61,760</u>
Total net assets	<u><u>\$ 721,370</u></u>

This analysis focuses on net assets. The Library's net assets were \$721,370 at December 31, 2004. Capital assets totaling \$641,720 compares the original costs, less depreciation of the Library's capital assets.

The \$61,760 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The results of this year's operations for the Library as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the Library has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Exhibit B	<u>Governmental Activities</u>
Revenue	
Program revenue:	
Contributions	\$ 4,072
Library fines	553
Copier fees	289
Video rentals	3,237
General revenue:	
Taxes	79,098
State aid	4,138
Penal fines	23,370
Interest	461
Miscellaneous	<u>1,694</u>
Total revenue	<u>116,912</u>
Function/Program Expenses	
Recreation and culture	<u>127,967</u>
Change in Net Assets	<u><u>\$ (11,055)</u></u>

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$127,967. Certain activities were funded from those who benefited from the programs. We paid for the remaining "public benefit" portion of our governmental activities interest and miscellaneous revenues.

The Library experienced a decrease in net assets of \$11,055. A key reason for the change in net assets was the recording of depreciation expense. The depreciation expense was off set by an increase in penal fines revenue. The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The Library's Fund

The Library uses the general fund to help it control and manage money for particular purposes. Looking at this fund helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

The Library's governmental fund reported a fund balance of \$79,650, which is above last year's total of \$71,993. The schedule below indicates the fund balance and the total change in fund balances as of December 31, 2004 and 2003.

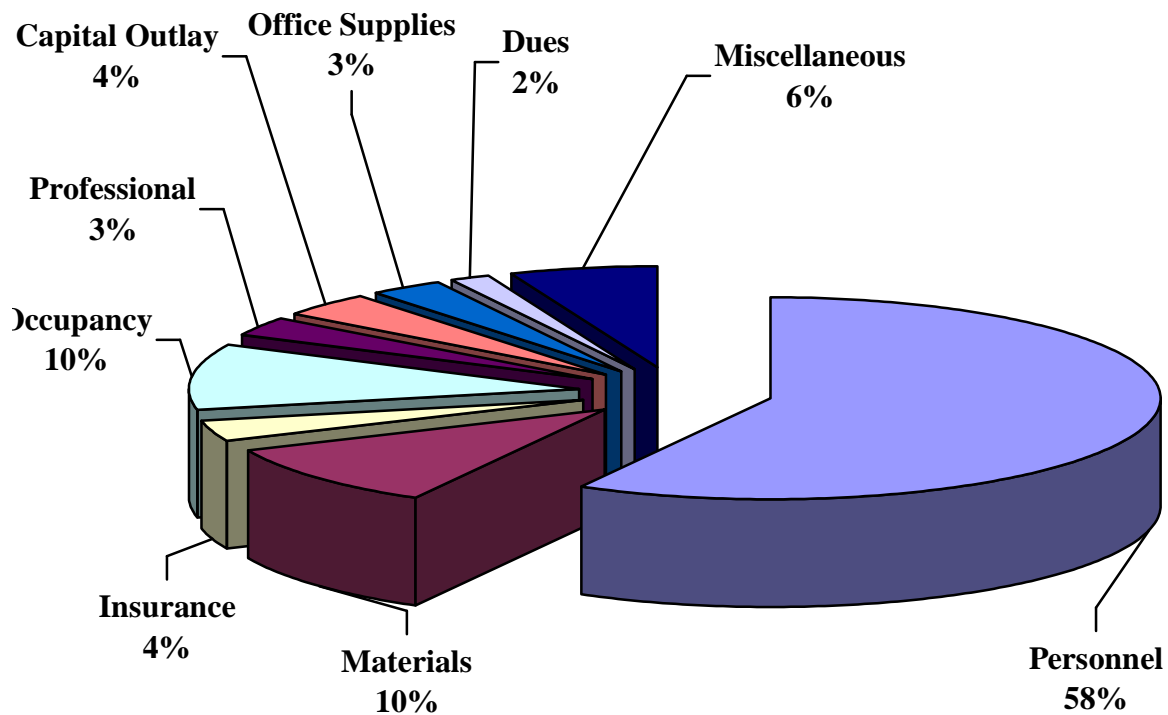
	<u>Fund Balance</u> <u>December 31, 2004</u>	<u>Fund Balance</u> <u>December 31, 2003</u>	<u>Increase</u>
General	\$ 79,650	\$ 71,993	\$ 7,657

- Our General Fund increased \$7,657. The increase is mainly due an increase in the amount of penal fines received as well as the receipt of additional penal fines from a correction in the 2003 disbursement. Also, the expenses for capital outlay decreased by approximately \$30,000. The purchases in the current year were minimal.

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

As the graph below illustrates, 58% of the Library's General Fund resources are spent on personnel costs. Another 10% is spent on occupancy, which includes utilities, communications and repairs and maintenance, while 10% is materials expense. The remaining 22% is spent on other expenditures as shown below.

Expenditures



COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

The chart below compares current year expenditures with prior year.

	<u>2004</u>	<u>2003</u>
<i>Expenditures by Function</i>		
Current operations	\$105,091	\$ 103,562
Capital outlay	<u>4,164</u>	<u>34,119</u>
Total	<u>\$ 109,255</u>	<u>\$ 137,681</u>

Expenditures are down by \$28,426 from the prior year mostly due a decrease in capital outlay.

General Fund Budgetary Highlights

Over the course of the year, the Library revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Final budgeted revenues were \$5,551 over the original budget due to an increase in penal fines.
- Final budgeted expenses were \$5,551 over the original budget due to an increase in salaries and wages.

The differences between the budget and the final actual amounts are as follows:

- Actual revenues exceeded budgeted revenue by \$14,418. The difference is due an increase in penal fines and the receipt of unexpected contributions.
- Actual expenditures were under the budgeted expenditures by \$61,668. The difference is due to less being expended on repairs and maintenance, capital outlay and miscellaneous expenses.

Capital Assets

At December 31, 2004, the Library had \$680,093 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. There were no changes in the capital assets in the current year.

COLEMAN AREA LIBRARY
Management's Discussion and Analysis
For the Year Ended December 31, 2004

	<u>2004</u>	<u>2003</u>
Land	\$ 24,000	\$ 24,000
Buildings and improvements	624,941	624,941
Furniture and fixtures	25,829	25,829
Equipment	<u>5,323</u>	<u>5,323</u>
Total capital assets	680,093	680,093
Less accumulated depreciation	<u>38,373</u>	<u>19,661</u>
Net capital assets	<u><u>\$ 641,720</u></u>	<u><u>\$ 660,432</u></u>

We do not anticipate any significant additions to the capital assets in the upcoming year. We present more detailed information about our capital assets in the notes to the financial statements.

Factors Expected to Have an Effect on Future Operations

We expect revenue from assessments to be comparable to the current year. We will need to adjust Library expenditures in response to any revenue shortfall.

Requests For Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the Coleman Area Library. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Coleman Area Library
P.O. Box 515
Coleman, MI 48618



WEINLANDER FITZHUGH

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ROBERT J. DUYCK, CPA

Independent Auditors' Report

June 8, 2005

To the Board of Directors
Coleman Area Library
Coleman, Michigan

We have audited the accompanying financial statements of the governmental activities, and the major fund of Coleman Area Library as of and for the year ended December 31, 2004, which collectively comprise the Coleman Area Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Coleman Area Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Coleman Area Library as of December 31, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

To the Board of Directors
Coleman Area Library
June 8, 2005

As described in Note 1, the Government has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

COLEMAN AREA LIBRARY
Statement of Net Assets
December 31, 2004

	Governmental <u>Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 75,527
Prepaid expenses	5,843
Capital assets - net of accumulated depreciation of \$38,373	<u>641,720</u>
Total Assets	<u>723,090</u>
<u>Liabilities</u>	
Accounts payable	23
Accrued payroll deductions and taxes	<u>1,697</u>
Total Liabilities	<u>1,720</u>
<u>Net Assets</u>	
Invested in capital assets	641,720
Restricted for new building	17,890
Unrestricted	<u>61,760</u>
Total Net Assets	<u><u>\$ 721,370</u></u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Statement of Activities
For the Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Contributions</u>	<u>Activities</u>
		<u>Services</u>		<u>Net (Expense)</u>
				<u>Revenue and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Primary Government -				
Governmental activities:				
Recreation and culture	<u>\$ 127,967</u>	<u>\$ 4,079</u>	<u>\$ 4,072</u>	<u>\$ (119,816)</u>
General revenues:				
Taxes				79,098
State aid				4,138
Penal fines				23,370
Interest				461
Miscellaneous				<u>1,694</u>
Total general revenues				<u>108,761</u>
Change in net assets				(11,055)
Net assets - beginning of year				<u>732,425</u>
Net assets - end of year				<u>\$ 721,370</u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Governmental Fund
Balance Sheet
December 31, 2004

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 75,527
Prepaid expenditures	<u>5,843</u>
	<u>\$ 81,370</u>
 <u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 23
Accrued payroll deductions and taxes	<u>1,697</u>
Total liabilities	<u>1,720</u>
 <u>Fund Balance</u>	
Reserved for new building	17,890
Unreserved:	
Designated for building repairs	17,000
Designated for equipment replacements	17,250
Designated for automation	9,500
Designated for computer replacement	4,166
Designated for microfilming	3,249
Designated for memorials	1,643
Designated for Friend of the Library	215
Undesignated	<u>8,737</u>
Total fund balances	<u>79,650</u>
 Total Liabilities and Fund Balances	<u>\$ 81,370</u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Reconciliation of Balance Sheet of Governmental Fund
to the Statement of Net Assets
December 31, 2004

Total fund balance - governmental fund	\$ 79,650
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	680,093
Accumulated depreciation	<u>(38,373)</u>
Total net assets - governmental activities	<u><u>\$ 721,370</u></u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Governmental Fund
Statement of Revenues, Expenditures and
Change in Fund Balance
For the Year Ended December 31, 2004

	General Fund
<u>Revenues</u>	
Taxes	\$ 79,098
State aid	4,138
Penal fines	23,370
Contributions	4,072
Library fines	553
Copier fees	289
Rentals	3,237
Interest	461
Miscellaneous	1,694
Total revenues	<u>116,912</u>
<u>Expenditures</u>	
Current operations	105,091
Capital outlay	4,164
Total expenditures	<u>109,255</u>
Net change in fund balance	7,657
Fund balance - beginning of year	<u>71,993</u>
Fund balance - end of year	<u><u>\$ 79,650</u></u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Reconciliation of the Statement of Revenues, Expenditures,
and Change in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balance - total governmental fund	\$ 7,657
Amounts reported for governmental funds in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(18,712)
	<hr/>
Change in net assets of governmental activities	<u><u>\$ (11,055)</u></u>

See accompanying notes to financial statements

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Coleman Area Library (Library) conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by Coleman Area Library:

Reporting Entity

The Coleman Area Library was organized to provide library services to residents of the City of Coleman, Warren and Geneva Townships in Midland County. The accompanying financial statements present the government.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings and machinery and equipment are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Building, furniture and fixtures, and equipment are being depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Furniture and fixtures	5 to 15 Years
Equipment	5 to 10 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change – Effective January 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library’s financial statements as a result of GASB No. 34 are as follows:

A Management’s Discussion and Analysis (MD&A) section providing analysis of the Library’s overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library’s activities have been provided.

The following reconciles the beginning fund balance to beginning net assets.

Fund balance, January 1, 2004	\$ 71,993
Capital assets	680,093
Accumulated depreciation	<u>(19,661)</u>
Net assets, January 1, 2004	<u><u>\$ 732,425</u></u>

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

Coleman Area Library follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Library's director submits to the Board a proposed budget prior to January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Library's deposits are in accordance with statutory authority.

At year-end, the Library's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$ 75,527</u>

The Library had no investments as of December 31, 2004.

The bank balance of the Library's deposits is \$81,375, all of which is covered by federal depository insurance.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 4 – CAPITAL ASSETS

Capital asset activity of the Library for the current year was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 24,000	\$ 0	\$ 0	\$ 24,000
Capital assets being depreciated:				
Buildings	624,941	0	0	624,941
Furniture and fixtures	25,829			25,829
Equipment	5,323	0	0	5,323
Subtotal	656,093	0	0	656,093
Less accumulated depreciation for:				
Buildings	15,624	15,623	0	31,247
Furniture and fixtures	2,024	2,024		4,048
Equipment	2,013	1,065	0	3,078
Subtotal	19,661	18,712	0	38,373
Net capital assets being depreciated	636,432	(18,712)	0	617,720
Governmental Activities, Total				
Capital Assets - Net of Depreciation	<u>\$ 660,432</u>	<u>\$ (18,712)</u>	<u>\$ 0</u>	<u>\$ 641,720</u>

Depreciation expense was charged to Library as follows:

Recreation and culture	\$ 18,712
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COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 5 – RISK MANAGEMENT

The Coleman Area Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). The Coleman Area Library participates in the Michigan Municipal League risk pool for claims relating to relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Coleman Area Library.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Boards Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

COLEMAN AREA LIBRARY
Notes to Financial Statements
For the Year Ended December 31, 2004

NOTE 6 – SIMPLE-IRA PLAN

The Library has adopted a Simple-IRA Plan covering all eligible employees. Employees contribute to the plan and the Library matches up to 3% of employee contributions. The amount paid by the Library for 2004 was \$1,192.

Required Supplemental Information

COLEMAN AREA LIBRARY
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 76,513	\$ 76,514	\$ 79,098	\$ 2,584
State aid	3,936	3,936	4,138	202
Penal fines	8,743	14,293	23,370	9,077
Contributions	0	0	4,072	4,072
Fees	1,001	1,001	0	(1,001)
	<u>90,193</u>	<u>95,744</u>	<u>110,678</u>	<u>14,934</u>
Library fines			553	
Copier fees			289	
Rentals			3,237	
Interest			461	
Miscellaneous			1,694	
	<u>6,750</u>	<u>6,750</u>	<u>6,234</u>	<u>(516)</u>
Total revenues	<u>96,943</u>	<u>102,494</u>	<u>116,912</u>	<u>14,418</u>
<u>Expenditures</u>				
Current				
Personnel:				
Salaries and wages	57,000	62,551	57,929	4,622
Payroll taxes	4,700	4,700	4,432	268
Retirement	1,685	1,685	1,192	493
	<u>63,385</u>	<u>68,936</u>	<u>63,553</u>	<u>5,383</u>
Materials:				
Books		6,955	7,458	(503)
Periodicals and newspapers		2,222	1,857	365
Audio and visual		3,113	1,671	1,442
	<u>12,290</u>	<u>12,290</u>	<u>10,986</u>	<u>1,304</u>
Other:				
Office supplies		2,400	3,351	(951)
Postage		675	597	78
White Pine co-op		2,700	1,894	806
Operating supplies		2,200	408	1,792
Repairs and maintenance		7,175	3,854	3,321

COLEMAN AREA LIBRARY
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
Communications		\$ 6,000	\$ 1,270	\$ 4,730
Insurance and bonds		4,000	3,870	130
Promotional		600	163	437
Utilities		6,000	6,257	(257)
Professional and contractual		3,000	3,402	(402)
Printing		600	726	(126)
Rentals		500	90	410
Dues		175	57	118
Miscellaneous		12,750	4,613	8,137
	<u>48,775</u>	<u>48,775</u>	<u>30,552</u>	<u>18,223</u>
Capital outlay	<u>40,922</u>	<u>40,922</u>	<u>4,164</u>	<u>36,758</u>
Total expenditures	<u>165,372</u>	<u>170,923</u>	<u>109,255</u>	<u>61,668</u>
Net change in fund balance	(68,429)	(68,429)	7,657	76,086
Fund balance - beginning of year	<u>71,993</u>	<u>71,993</u>	<u>71,993</u>	<u>0</u>
Fund balance - end of year	<u>\$ 3,564</u>	<u>\$ 3,564</u>	<u>\$ 79,650</u>	<u>\$ 76,086</u>



WEINLANDER FITZHUGH

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June 8, 2005

Members of the Library Board
Coleman Area Library
Coleman, Michigan

This letter is intended to inform the Library Board about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the Library Board.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards

Our audit of the financial statements of the Library for the year ended December 31, 2004 was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Library's internal control or compliance with laws and regulations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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WEINLANDER FITZHUGH

Members of the Library Board
Coleman Area Library
June 8, 2005
Page 2

Audit Adjustments

There were a number of audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, adjustments to Midland County Community Foundation deposit, prior year fund balances and current year fund balances either individually or in the aggregate, have a significant effect on the Library's financial reporting process.

Accounting Policies and Alternative Treatments

Management and the Library Board have the ultimate responsibility for the appropriateness of the accounting policies used by the Library. The significant accounting policies adopted by the Library are described in Footnote 1 to the financial statements. The Library adopted several significant Governmental Accounting Standards Board (GASB) Statements in the current year including:

GASB No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments

GASB No. 37, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus

GASB No. 38, Certain Financial Statement Note Disclosures

GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

Disagreements with Management

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



WEINLANDER FITZHUGH

Members of the Library Board
Coleman Area Library
June 8, 2005
Page 3

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Other Comments

Internal Control Policies

Statement on Auditing Standard (SAS) No. 99, requires auditors to assess risks of fraud after taking into account the evaluation of the Library's programs and controls to prevent, deter and detect fraud. As part of our responsibilities under SAS 99, we have addressed the risk assessment by performing inquiries, completing comprehensive checklists and performing other procedures designed to detect fraud risk factors. SAS 99 further states that it is management's responsibility for designing and implementing effective systems and procedures for preventing, deterring and detecting fraud. While we did not identify any specific fraud risks, we recommend the Library periodically review the controls in place to prevent, deter and detect fraud.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Library.

This report is intended solely for the information and use of the Members of the Library Board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

Weinlander Fitzhugh